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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, FEBRUARY 18, 1999

COMMONWEALTH OF VIRGINIA

At the relation of the

STATE CORPORATION COMMISSION

Ex Parte: Investigation of  
Electric Utility Industry  
Restructuring - Appalachian  
Power Company

and

CASE NO. PUE960301

APPLICATION OF

APPALACHIAN POWER COMPANY

For an Alternative Regulatory Plan

FINAL ORDER

On June 13, 1997, Appalachian Power Company ("Appalachian" or "the Company") filed with the Commission an application, direct testimony, and exhibits for approval of an alternative regulatory plan ("Plan") and for a general increase in electric rates. Appalachian's application requested a general revenue increase of \$30,488,249 in base rates on an annual basis, an increase of approximately 4.8% over current revenues. The Company's request for general rate relief was based upon a calendar 1996 test period, was predicated upon a 9.789% overall rate of return on rate base, and incorporated a return on common

equity of 12.9%. The Company also filed proposed tariffs to implement its general rate increase. The Commission suspended the Company's rates for a period of 150 days, and the proposed rates went into effect, subject to refund, with interest, on November 11, 1997.

Appalachian's Plan would have instituted a moratorium period during which no changes would be made prior to January 1, 2001, from the total base rate revenue levels requested by the Company. The proposed Plan did, however, permit shifts in revenues among the Company's customer classes from year to year. In addition, the Plan included a freeze on the Company's 1.482¢/kWh fuel factor for the same period of time as its base rate moratorium; a sharing of earnings above certain levels between the Company and its customers; and acceleration of the recovery of certain regulatory assets.

The Commission granted several extensions for the filing of testimonies, protests, and rebuttal testimony, and granted a general continuance of the hearing date, on advice that the Staff and certain parties to this proceeding had begun and were continuing discussions that were intended to narrow the issues in this case. A hearing for public witnesses only was held on May 19, 1998.

On January 8, 1999, the Staff, the Company, the Division of Consumer Counsel of the Office of the Attorney General ("the

Attorney General"), and the Old Dominion Committee for Fair Utility Rates ("the Committee"), hereafter collectively referred to as the "Stipulating Participants," entered into a Stipulation that resolved certain rate issues among themselves in these proceedings.

On January 11, 1999, the Staff and the Company filed the proposed Stipulation with an accompanying motion requesting its consideration. The major components of the Stipulation include: (1) a refund, including interest, of all the increase collected under interim rates from November 11, 1997, to the present, an amount that, at present, exceeds \$38 million; (2) a rate reduction of \$6 million annually, effective for service rendered on and after January 1, 1998;<sup>1</sup> (3) the filing of an earnings test for each year of the Plan, calculating earned ROE using the methodology and comparable adjustments adopted by the Commission in Case No. PUE940063; (4) Appalachian's intention to hold rates at these levels through December 31, 2000, but permitting a rate change request by any party if changes of circumstance or other factors make it necessary for the protection of the legitimate interests of the Company's customers or its shareholders; (5) an investment by the Company of at least \$90 million in Virginia distribution facilities to maintain the overall quality and

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<sup>1</sup> Because this rate reduction is being implemented as of January 1, 1998, additional refunds will be made to customers.

reliability of electric service; (6) the continuation of the Company's fuel factor and deferred accounting mechanism under current regulation; (7) a benchmark rate of return on equity of 10.85% upon which future earnings will be tested (at the conclusion of the Plan Period, one-third of any net cumulative earnings above that amount will be retained by the Company and the remaining two-thirds will be refunded to ratepayers); and (8) full amortization of certain regulatory assets over the 36-month period, from January 1, 1998, through December 31, 2000, on a straight-line basis.

The Commission issued its Order on the Proposed Stipulation on January 13, 1999, setting dates for the filing of comments or testimony on the Stipulation, replies to comments and testimony, and notices of intent to participate in the hearing.

On January 25, 1999, the Staff filed the testimonies of Lawrence T. Oliver of the Commission's Division of Economics and Finance, Patrick W. Carr of the Division of Public Utility Accounting, and Eswara B. Raju and Thomas E. Lamm of the Division of Energy Regulation. The Staff's testimony supported the Stipulation and settlement and proposed that the issue of the unbundling of Appalachian's rates be transferred to Case No. PUE980814. On February 3, 1999, the Attorney General and the Committee filed comments supporting the terms of the Stipulation and the Staff's proposed handling of the unbundling

issue. On February 5, 1999, each of the parties filed notices of intent to participate in the hearing, but no party indicated an interest in presenting witnesses or cross-examining any Staff witnesses.

At the hearing on February 11, 1999, the Company's application and testimony, and the Staff's testimony were entered into the record without cross-examination. The Company's proof of notice, filed on January 11, 1999, and the Stipulation, filed on the same date, were also admitted to the record.

In reaching our findings and conclusions, we have considered the entire record, including the testimony of the Company and Staff, and the comments of the parties. We find that the Stipulation provides for an appropriate refund to Virginia jurisdictional customers and is in the public interest. We find that, based on the record, the rates that will result from the plan will be just and reasonable, and that the plan protects the public interest, will not unreasonably prejudice or disadvantage any customer or class of customers, and will not jeopardize the continuation of reliable electric service. We also find that it is appropriate to transfer the issue of unbundling Appalachian's rates to Case No. PUE980814.

IT IS THEREFORE ORDERED THAT:

(1) The regulatory plan for Appalachian Power Company contained in the Stipulation is ADOPTED in its entirety, without change or condition.

(2) On or before May 18, 1999, Appalachian shall refund to its Virginia jurisdictional customers, for the period November 11, 1997, through December 31, 1997, the difference, with interest as directed below, between the amounts that were collected subject to refund, and the amounts that would have been collected under the pre-November 11, 1997, base rates.

(3) On or before May 18, 1999, Appalachian shall refund to its Virginia jurisdictional customers, for the period January 1, 1998, through the implementation date of the stipulated rates, the difference, with interest as directed below, between the amounts that were collected subject to refund, and the amounts that would have been collected under the final base rates specified in Exhibit 2 to the Stipulation.

(4) On or before March 1, 1999, Appalachian shall file with Division of Energy Regulation revised tariffs implementing the base rates specified in Exhibit 2 to the Stipulation.

(5) Interest upon the ordered refunds shall be computed from the date payment of each monthly bill was due during the periods covered by the refunds until the date refunds are made, at an average prime rate for each calendar quarter. The

applicable average prime rate for each calendar quarter shall be the arithmetic mean, to the nearest one hundredth of one percent, of the prime rate values published in the Federal Reserve Bulletin or in the Federal Reserve's Selected Interest Rates (Statistical Release G.13), for the three months of the preceding calendar quarter.

(6) The interest required to be paid shall be compounded quarterly.

(7) The refunds ordered may be accomplished by credit to current customer's accounts (each such refund category being shown separately on each customer's bill). Refunds to former customers shall be made by a check to the last known address of such customers when the refund amount is \$1 or more.

Appalachian may offset the credit or refund to the extent no dispute exists regarding the outstanding balances of its past or current customers. To the extent that outstanding balances of such customers are disputed, no offset shall be permitted for the disputed portion. Appalachian may retain refunds owed to former customers when such refund amount is less than \$1; however, Appalachian will prepare and maintain a list detailing each of the former accounts for which refunds are less than \$1 and in the event such former customers contact Appalachian and request refunds, such refunds shall be made promptly. All

unclaimed refunds shall be handled in accordance with § 55-210.6:2 of the Code of Virginia.

(8) On or before July 1, 1999, Appalachian shall file with the Staff a document showing that all refunds have been lawfully made pursuant to this Order and itemizing the cost of the refund and accounts charged. Such itemization of costs shall include, inter alia, computer costs, and the personnel-hours, associated salaries and cost for verifying and correcting the refund methodology and developing the computer program.

(9) Appalachian shall bear all costs of the refunding directed in this Order.

(10) The issue of the unbundling of Appalachian's rates shall be transferred to Case No. PUE980814.

(11) There being nothing further to come before the Commission, this matter shall be removed from the docket and papers placed in the file for ended causes.